



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.50.1

February 14, 2005
05-PPD-017(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Management Guidance on DCAA Executive Steering Committee Action Items on Overage Contracts and FY 2005 MOCAS Priority Audits

Summary

This memorandum provides audit management guidance on the DCAA Executive Steering Committee (ESC) action items addressing contract closeout, overage contracts, and the FY 2005 MOCAS Priority audits. The objective of the ESC action items is to target, for accelerated completion, incurred cost submissions on hand as of August 31, 2004, for contractor fiscal years (CFYs) associated with overage contracts. In addition, to prevent the buildup of overage contracts requiring a final rate audit, the ESC directed that regions/FAOs take proactive steps to identify and target for accelerated completion, those CFYs associated with 20 or more contracts that will become overage within a 12 month period from the receipt of submission.

Background

As part of the Department's continuing priority on timely close-out of physically complete contracts, and considering the important role DCAA plays in that process, the ESC approved two action items. These action items have a twofold objective: (1) the accelerated completion of audits of CFYs with submissions on hand as of August 31, 2004, that are associated with overage contracts (i.e., contracts that have been physically complete for more than three years) and, (2) identifying and targeting for continuous completion, within an average of four months, audits of CFYs associated with 20 or more overage contracts. In addition the ESC approved extending the Agency's MOCAS Priority audit initiative for FYs 2005 and 2006. Audit guidance to assist FAOs in identifying and planning their FY 2005 MOCAS Priority incurred cost audits was provided in MRD 04-OWD-041(R) *Fiscal Year 2005 Planning and Staff Allocation Document* (PSAD), dated July 16, 2004.

Guidance

ESC Action Items on Overage Contracts: The ESC established two action items to address those circumstances where there are overage contracts associated with unaudited CFYs.

SUBJECT: Audit Management Guidance on DCAA Executive Steering Committee Action
Items on Overage Contracts and FY 2005 MOCAS Priority Audits

- **Accelerated Completion of Incurred Cost Audits at Contractors with DCMA Overage Contracts.** The objective of this action item is to target, for accelerated completion, audits of CFYs with overage contracts that had a submission on hand as of August 31, 2004. The action item schedules the completion of these audits based on the length of time the submissions were on hand as of August 31, 2004. The targeted due dates for each of the age groupings are as follows:
 - Submissions on hand longer than 18 months - audits due by January 31, 2005
 - Submissions on hand between 12-18 months – audits due by February 28, 2005
 - Submissions on hand between 6-12 months – audits due by March 31, 2005
 - Submissions on hand between 4-6 months – audits due by April 30, 2005

Regional baselines for these strata have been established, and the audits required by January 31, 2005 were substantially achieved. Additional guidance related to the continued monitoring and reporting of the status of these audits is provided later in this memorandum.

- **Continuous Completion of Audits of CFYs With 20 or More Overage Contracts Within an Average of Four Months of Receipt of the Submission:** In order to prevent the future buildup of overage contracts requiring a final rate audit, FAOs need to proactively identify and target for accelerated completion those CFYs with a high number of contracts becoming overage within 12 months after the receipt of an adequate submission. Specifically, this action item requires the continuous completion of audits of submissions, within an average of four months from the receipt of an adequate proposal, if they are related to more than 20 current overage contracts and/or 20 contracts that will become overage within the designated 12 month period. These audits relate to submissions received **after** August 31, 2004. FAOs should work with their regional points of contact (POC) (referring to Attachment 1 to MRD 04-OWD-041(R) *Fiscal Year 2005 Planning and Staff Allocation Document* (PSAD), dated July 16, 2005) to identify contracts that will become overage in FY 2005. We are obtaining the universe of contracts that will become overage in FY 2006 from DCMA, and once this file has been matched with DMIS, it will be e-mailed to regional contract closeout POCs for review and dissemination to their respective FAOs.
- **MOCAS Priority Audits:** The ESC approved the extension of the Agency's MOCAS Priority audit initiative for FYs 2005 and 2006. The MOCAS Priority audit objective approved by the ESC is as follows:

*By FY 2005 and 2006, complete the incurred cost audits identified by DCMA as necessary to accomplish DCMA Performance Goals:
3.1.3 - Contract Closeout, 3.1.4 - Close Contracts Physically
Complete More than 6 Years, 3.1.5 - Overage Contracts and 3.1.6
- Canceling Funds.*

**SUBJECT: Audit Management Guidance on DCAA Executive Steering Committee Action
Items on Overage Contracts and FY 2005 MOCAS Priority Audits**

- **MOCAS Priority Audit Baseline:** All MOCAS Priority baseline audits should have been entered into DMIS by January 31, 2005, using the criteria outlined in MRD 04-OWD-041(R) *Fiscal Year 2005 Planning and Staff Allocation Document* (PSAD), dated July 16, 2004, and time-phased to be completed by September 30, 2005. This baseline will be used for monitoring and reporting progress during the fiscal year to the Director and ESC. Since a majority of the MOCAS Priority audits impact the timely settlement and closure of overage contracts, Headquarters will be monitoring for schedule slippage and teaming with the regional contract closeout POCs to ensure that the barriers to successfully completing the audits are being timely addressed.
- **Additional Guidance for Prioritizing Unaudited CFYs:** Experience has shown that as an incurred cost submission becomes increasingly delinquent from the contractor, the number of contracts that become overage related to the unaudited CFY increases. Therefore, FAOs need to prioritize the audit of all late contractor incurred cost submissions, to the extent overage contracts are associated with them, to minimize the number of contracts that are or will become overage before the audit is completed. FAOs can coordinate with their regional contract closeout POCs to assist in identifying the number of overage contracts associated with the late submission(s).

Reporting and Monitoring Interim Progress

As coordinated with the regional contract closeout POCs and Headquarters PPD, regions will provide a monthly status report to PPD on their accomplishment of the aforementioned ESC action items and the MOCAS Priority baseline audits by the fifth working day of each month. The status of the ESC action items will be reported using spreadsheets previously provided to the regional contract closeout POCs. The status of the MOCAS Priority baseline audits should be reported using the StratPlan 3a report saved without formatting. Regions should report any slippage in scheduled due dates to PPD via e-mail as soon as the slippage is identified. The notification message should include the reason for the slippage, actions taken to minimize the slippage, and the revised due date. Regions without any slippage in due dates should acknowledge such with a positive statement in their transmission e-mail to PPD when submitting their monthly status reports.

Coordination with DCMA

Regions and FAOs should have frequent communication with their respective DCMA Districts and CMOs. FAOs should continually keep their ACOs apprised (at least quarterly), as to their MOCAS Priority audit status. In addition to briefing their MOCAS Priority audit status, these meetings should be used to ensure that DCMA is notified of recently completed audits and of any identified miscoded data received from MOCAS that erroneously assigns their office as having the primary action related to an open overage contract. In addition, these meetings should

PPD 730.5.50.1

February 14, 2005

SUBJECT: Audit Management Guidance on DCAA Executive Steering Committee Action
Items on Overage Contracts and FY 2005 MOCAS Priority Audits

be used to jointly identify and take proactive measures to address potential overage contracts caused by late contractor submissions for FY 2006 and future CFYs.

Concluding Remarks

FAOs with questions regarding this memorandum should contact their regional offices. Regions with questions should contact Mr. David G. Fleming, Program Manager, Policy Programs Division at (703) 767-2270, fax at (703) 767-3258, or e-mail dcaa-ppd@dcaa.mil.

/Signed/

Robert DiMucci
Assistant Director
Policy and Plans

DISTRIBUTION: C